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SUBJECT: ROMANIA'S BANKING SYSTEM: CLEAN BILL OF HEALTH

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1. (SBU) Summary: Western banks play a dominant role in Romania's growing economy, controlling slightly over 83 percent of the country's banking system. This situation, coupled with tight regulation and close supervision by the Romanian Central Bank (BNR), leaves Romania with relatively few worries regarding money laundering and large scale banking fraud. End summary.

#### Western Banking Brands Dominate the Market

2. (U) Western banks dominate Romania's savings and lending markets, controlling over 83 percent of the commercial banking system. Romania's banking system has total net assets amounting to EURO 42.919 billion. With Romania's GDP likely to exceed EURO 100 billion in 2006, experts predict continued strong growth in the banking and credit sector to be led by Western banking interests.

3. (U) Romania's banking sector consists of several large banks that control the vast majority of the banking business and numerous smaller banks that take up niche markets or are struggling to stay afloat in a period of increased competition. The following list is a survey of the banks in Romania and their relative positions in the market.

#### Banking Sector Census

4. (U) The Romanian Commercial Bank (BCR) is the largest bank in Romania with over EURO 11 billion and a market share of 25.9 percent. Austria's Erste Bank purchased the entire state-owned package in the bank in 2006, as well as the EBRD and IFC stakes. In addition to the original 62.9 percent stake purchased in BCR, Erste Bank has been acquiring shares from the Bank's employees, who owned 7.1 percent of the Bank prior to privatization. Five domestic investment funds also still own an aggregate 30 percent in BCR. Erste Bank has stated its intent to buy them out as well.

5. (U) The second largest bank in Romania is BRD Groupe Societe Generale, owned by France's Societe Generale. BRD holds nearly EURO 7.2 billion in net assets and a 16.7 percent market share. The EBRD has preserved a 5 percent stake in BRD.

6. (U) The third largest bank in Romania is Raiffeisen Bank with almost Euros 3.6 billion in net assets and a market share of 8.3 percent. Austria's Raiffeisen Bank purchased the former state-owned Agricultural Bank and buying out minority shareholders, including the Romanian-American Enterprise Fund.

17. (U) Germany's HVB consolidated its position on the market with the 2006 acquisition of the Ion Tiriac Bank, now ranking fourth on the banking market. [N.B. Tiriac was German tennis star Boris Becker's manager and Romanian tennis star Ilie Nastase's doubles partner.] With a combined EURO 3.57 billion in net assets, HVB Tiriac holds 5.7 percent of Romania's market.

18. (U) All other banks have market shares of less than five percent. They include the following banks:

-- Cluj-based Banca Transilvania stands in fifth place, with around EURO 1.9 billion in net assets and a 4.5 percent share of the banking business. The Bank is managed by former ABN-AMRO Romania CEO Robert Rekkers and is listed on the Bucharest Stock Exchange. EBRD holds 15 percent of the Bank's capital. Various other Romanian firms, including local investment funds, hold another 21.5 percent of the Bank's stock.

-- Greece's Alpha Bank fully owns its namesake, Alpha Bank Romania. The Romanian Alpha Bank has nearly EURO 1.9 billion in assets and comprises 4.4 percent of the local market.

-- Bancpost is the next largest bank, with net assets standing at slightly over EURO 1.87 billion and a market share of 4.3 percent. Bancpost is a former state-owned commercial bank privatized in 1999. Greece's EFG Eurobank Ergasias has gradually bought out several other shareholders in Bancpost, including former minority shareholder GE Capital, and now owns 77.6 percent of the bank's total stock. The remaining shares in the bank are divided among domestic private investment funds.

-- The lone remaining state-owned bank in Romania is the National Savings Bank (CEC). The GOR has sought to privatize CEC since 2004, with two calls for offers to date. However, the GOR has withdrawn the privatization offer on both occasions, claiming that the bids were too low. In December 2006, the GOR rejected the National Bank

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of Greece's best binding offer of EURO 560 million for majority control. CEC has net assets worth over EURO 1.7 billion and has a 4.0 percent market share. While CEC's asset base is small, it has one of the most extensive branch networks in Romania. The GOR has pledged to infuse the bank with up to EURO 500 million in additional assets, though some question whether such assistance is consistent with European State Aid regulations. Post will analyze CEC's current situation and future status Septel.

-- The Dutch ING Bank Romania follows with over EURO 1.6 billion in net assets and a 3.8 percent share.

-- Another Dutch bank, ABN AMRO Romania, follows with net assets amounting to slightly over EURO 1.3 billion and a 3.1 percent market share.

-- Austria's Volksbank fully controls Volksbank Romania, with net assets amounting to slightly over EURO 1.02 billion and a market share of 2.4 percent.

-- The National Bank of Greece (which tried unsuccessfully to purchase CEC through privatization) has purchased a former private domestic bank, Banca Romaneasca, which has net assets amounting to EURO 882.5 million and 2.1 percent market share.

-- Citibank Romania is the only major U.S. bank operating in Romania. It has EURO 719.3 million in net assets and a market share of 1.7 percent.

-- Italian-owned UniCredito has close to EURO 714 million in net assets and a 1.7 percent share of the market. Unicredito will combine its branches with HVB Tiriac following last year's international merger.

-- Finansbank Romania is the local operation of the Turkish bank with the same name, with net assets in amount to EURO 545 million and 1.3 percent market share.

-- Piraeus Bank is the local operation of its Greek namesake. In Romania, Piraeus Bank's net assets amount to EURO 257.9 million and has 0.9 percent local market share.

-- Carpatica Bank has a local market share of 0.8 percent with net assets of EURO 369 million. The private bank is based in Sibiu and the stock is listed on the Bucharest Stock Exchange. 53.6% of Carpatica Bank's fragmented shareholders structure is with Romanian individuals, 27.9% with foreign individuals, 13.2% with Romanian legal entities and 5.3% with foreign legal entities.

-- Hungary's OTP Bank purchased the former Turkish-owned RO-Bank and has net assets in Romania of around EURO 565 million, giving it a 1.3 percent market share under the OTP Bank Romania name. OTP sought to expand through participation in the CEC privatization, but chose not to submit a final bid.

-- Banca Italo-Romena, based in Treviso, Italy, is a Romanian-Italian banking joint venture between Italy's Gruppo Veneto Banca (92.3 percent shares) and Romania's banking leader BCR (7.7 percent shares). Banca Italo-Romena has net assets amounting to EURO 376.7 million and a local market share of 0.8 percent.

-- Italian SanPaolo IMI Bank has net assets of nearly EURO 258 million and 0.6 percent market share. The Italian bank in 2003 bought more than 95 percent of the former private domestic West Bank based in Arad.

-- Turkish-owned Garanti Bank International has local net assets amounting to 174.5 million and a market share of 0.4 percent. The bank is legally based and supervised in the Netherlands.

-- Anglo-Romanian Bank follows with net assets amounting to EURO 164.6 million and a market share of 0.4 percent. Anglo-Romanian Bank is BCR's international brand with branches in London and Frankfurt.

-- Egnatia Bank Romania is the local operation of the Greek bank bearing the same name. Egnatia Bank Romania's net assets amount to EURO 162.1 million and a market share of 0.4 percent.

-- Bank Leumi Romania belongs to its Israeli namesake, Leumi Bank. In Romania, the bank has net assets amounting to EURO 146.3 million and market share of 0.3 percent.

-- Libra Bank has net assets of EURO 115.5 million and a 0.3 percent market share. U.S. investment fund New Century Holding (NCH), an off-shore company based in Cyprus, has had full control of Libra

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Bank since 2003. NCH's diverse investment portfolio makes it one of the largest U.S. investors in Romania. The fund owns Libra Bank through several non-banking local firms.

-- Emporiki Bank Romania is the local bank owned by its Greek namesake, the former "Commercial Bank of Greece". Emporiki Bank Romania has net assets of EURO 99.0 million and a market share of 0.2 percent.

-- Romanian International Bank (RIB) has net assets of EURO 71.1 million and a 0.2 percent market share. RIB is nearly completely owned by Amcit Daniel Roberts, owner of Merchants Bank of California. Roberts purchased RIB from the former Turkish bank Sumerbank.

-- Blom Bank Egypt is the Romanian branch of the former Romanian-Egyptian banking joint venture MISR, based in Cairo. Blom Bank Egypt still is based in Cairo and the Romanian operation technically is a branch. Earlier in 2006, about 99 percent of the parent bank was purchased by Blom Bank, which claims to be the largest bank in Lebanon. It is currently the only Arab-owned bank in Romania. Blom Bank Egypt's Romanian branch has net assets of EURO 66.6 million and a market share of 0.2 percent.

-- Banca C.R. Firenze Romania has net assets of EURO 66.8 million and a market share of 0.2 percent. Italy's Banca C.R. Firenze

purchased the majority shares in the former South-Korean owned Daewoo Bank Romania.

-- Banca di Roma SpA. Italia owns a Romanian branch. It is the only bank with a market share of under .2 percent (it has .1 percent) to hold a universal banking license. Its net assets total EURO 50.3 million.

#### Smallest Banks Find Niche

¶9. (U) Many other, smaller banks operate in Romania, with most of their activities limited to niche markets and customers. These include:

-- ProCredit Bank has net assets of EURO 194.6 million and 0.5 percent local market share. The bank, which specializes in micro-lending, is fully owned by Germany's ProCredit Holding AG.

-- Mindbank has net assets of EURO 85.5 million and a market share of 0.2 percent. The bank was originally established by the Romanian Handicraft Cooperative Union. In early 2006, the Agricultural Bank of Greece purchased 62 percent of Mindbank's total stock, with the Union retaining close to 20 percent. The remaining stock is held by minority individual shareholders.

-- Raiffeisen Housing Bank is Austrian-owned Raiffeisen Bank's local specialized arm dealing with home and mortgage lending. It has net assets of EURO 62.8 million and a market share of 0.1 percent.

-- Porsche Bank Romania is a full member of Austria's specialized car loan Porsche Bank Group, financing the sales of Audi, Volkswagen, Seat, Skoda and Porsche cars in Romania. Porsche Bank Romania has net assets of EURO 50.0 million and a market share of 0.1 percent.

-- HVB Housing Bank is a German-owned specialized bank dealing with real estate and mortgage lending. It currently has net assets of EURO 10.2 million and a market share of 0.02 percent.

#### The Last "Problem Child" is Sold

¶10. (SBU) Romexterra Bank holds a 0.7 percent market share with net assets of EURO 308.6 million. Until recently Romexterra Bank was the outlier in the general trend toward clean banking in Romania. The Central Bank considered it the main potential threat to the integrity of the Romanian banking system, particularly because of the reputation of its owners. Initially the bank of the Romanian natural gas industry, Romexterra gradually fell into the hands of the main oil workers' trade union, Petrom and then Petromservice controlled by controversial union leader Liviu Luca and his business partner, Sorin Ovidiu Vantu. Vantu is currently under investigation and court proceedings for his role in various financial schemes, including the fraudulent bankruptcy of the former largest equity fund FNI and several extinct commercial banks (BRS, BID, Banca Agricola). He has successfully escaped conviction thus far.

¶11. (SBU) In 2006, Hungary's MKB bank, the country's third largest bank (controlled 90 percent by Germany's seventh largest bank - Bayerische Landesbank) purchased the Luca/Vantu group's shares in Romexterra - 55.2 percent of the bank's total stock. Romgaz and

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Transgaz, the state-owned natural gas production and transport companies, decided not to sell their minority stake in the bank. The new majority owners of the bank are working to hire new personnel and change the bank's management, alleviating the concerns of the Central Bank's regulators.

#### Comment

¶12. (SBU) If there is one area of post-communist financial management that Romania has gotten right, it is the cleanup of the Romanian banking system. Romanian authorities' openness to allowing western banks to purchase domestic banking assets and the Romanian Central Bank's aggressive efforts to push shady businessmen out of the banking business have been important elements of Romania's

economic transition. Due to strong Central Bank oversight, Post assesses that the money laundering risks in the Romanian banking system are low and the overall stability of the banking system is high.

¶13. (SBU) Although there will always be the risk of financial manipulation and banking fraud, Post believes that Romania's real money laundering challenges lie outside the banking system, namely with insurance houses, real estate brokerage firms, securities exchange houses, foreign exchange houses and casinos. Post recommends continuing consultation with, and assistance to, the Central Bank and other regulatory agencies to ensure that Romania can meet the challenges of overseeing an increasingly complex financial system.

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